OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980

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The Trilateral Commission
This report has been prepared for the Trilateral Commission and is released under its auspices. It was thoroughly discussed at the Trilateral Executive Committee meeting held in Washington, D.C. on December 8-10, 1974, and the Resolution issued by the Executive Committee in Washington was based in part on it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

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SPECIAL NOTICE

The new Development Committee of the World Bank and International Monetary Fund has recently called for study of a "Third Window" for the Bank utilizing the interest subsidy technique, as recommended in this report. The Committee, composed of Finance Ministers from twenty countries, hopes to take a decision on the new lending facility at its next meeting, in Paris in June.

ZBIGNIEW BRZEZINSKI
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OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980

A Report of the Trilateral Task Force on Relations with Developing Countries to the Executive Committee of The Trilateral Commission

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**Saburo Okita** was born on November 3, 1914 in Dairen, Manchuria. Upon graduation from Tokyo University, he served as Engineer in the Ministry of Posts. In 1947 he became Chief of the Research Section of the Economic Stabilization Board, and in 1952 joined the U. N. Economic Commission for Asia and the Far East. In 1953, he entered the Economic Planning Agency in Japan, serving as Chief of the Economic Cooperation Unit (1953), Director of the Planning Bureau (1957), and Director of the Development Bureau (1962-1963). From 1964 to 1973 he was Special Advisor to the Minister of the Economic Planning Agency, and was President of the Japan Economic Research Center during the same years, becoming Chairman of the latter body in 1973. He has also served as a Member of the Pearson Commission on International Development (1969-1970), and of the U. N. Development
Planning Committee (since 1965). Mr. Okita was President of the International Development Center of Japan from 1971 to 1973, and now serves as Special Advisor to that organization. He is now President of the Overseas Economic Cooperation Fund, and a member of the Executive Committee of the Trilateral Commission. His books include *The New Image of the Japanese Economy* (1971) and *The Role of the Economist* (1973). He is currently serving as a member of the "small group of high-level experts" appointed by the Secretary-General of the United Nations to propose structural changes in the international economic institutions of the U. N. system.

B. J. Udink was born on February 12, 1926, and attended the Netherlands School of Economics in Rotterdam and the Ecole des Hautes Etudes Commerciales in Lausanne. From 1950 to 1963 he was a Lecturer at the Netherlands School of Economics and Director of the Central Institute for Traffic Engineering. He served as Director of the Central Chamber of the Netherlands for Export Promotion from 1962 to 1967. Since 1965, Mr. Udink has been a Member of the National Advisory Council for Aid to the Developing Countries, as well as Chairman of the Protestant Group in the Rijnmond Council. In 1967 he entered the Dutch cabinet, serving as Minister Without Portfolio, Responsible for Aid to the Developing Countries (1967-1971), Minister of Housing and Physical Planning (1971-1972), and Minister of Transport (1972-1973). Mr. Udink is currently Managing Director of OGEM Holding, N.V., Rotterdam.
The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on Relations with Developing Countries, with Professor Richard N. Gardner serving as principal drafter.

Although only the three rapporteurs are responsible for the analysis and conclusions, they were aided in their task by extensive consultations with experts from the trilateral regions, the developing countries, and various international organizations. In each case, the consultants spoke for themselves as individuals and not as the representatives of any institutions to which they belong. Those consulted included the following:

Michel van den Abeele, *Chef de Cabinet of Henri Simonet, Vice-President of the Commission of the European Communities*
C. Fred Bergsten, *Senior Fellow, The Brookings Institution*
Zbigniew Brzezinski, *Director, The Trilateral Commission*
Jacques Alain le Chartier de Sedouy, *Chef de Cabinet of Claude Cheysson, Member of the Commission of the European Communities*
Claude Cheysson, *Member of the Commission of the European Communities*
Richard N. Cooper, *Professor of Economics, Yale University*
Gamani Corea, *Secretary-General of UNCTAD*
William B. Dale, *Deputy Managing Director, International Monetary Fund*
Count Etienne Davignon, *Director of Political Affairs, Belgian Foreign Ministry*
Guy Erb, *Overseas Development Council*
Clyde Farnsworth, *European Economic Correspondent, The New York Times*
George S. Franklin, *North American Secretary, The Trilateral Commission*
James Grant, *President, Overseas Development Council*
Joseph Greenwald, *United States Ambassador to the European Community*
Ravi Gulhati, *Director, Development Economics Department, International Bank for Reconstruction and Development*
Nurul Islam, *Deputy Chairman of Planning Commission, Government of Bangladesh*
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Emile van Lennep, *Director-General of OECD*
Joseph Luns, *Secretary-General of NATO*
Robert S. McNamara, *President, International Bank for Reconstruction and Development*
Benedict Meynell, Director, External Relations Division, Commission of the European Communities
Cecilio J. Morales, Manager, Economic and Social Development Department, Inter-American Development Bank
Enrique Perez-Cisneros, Special Representative, Europe, Inter-American Development Bank
J. J. Polak, Director of Research Department, International Monetary Fund
Raúl Prebisch, Special Representative of the Secretary-General for the United Nations Emergency Operation, United Nations
Gustav Ranis, Director, Economic Growth Center, Yale University
Mohamed Shoab, Vice-President, International Bank for Reconstruction and Development
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Ernest Stern, Director, Development Policy, International Bank for Reconstruction and Development
Ernest Sturec, Director, Exchange and Trade Relations, International Monetary Fund
Anthony F. Tuke, Chairman, Barclays Bank International, Ltd.
Kaye Whitean, Information Office, Development Cooperation Directory, European Commission
Maurice Williams, Chairman, Development Assistance Committee, OECD

SCHEDULE OF TASK FORCE ACTIVITIES:

June 25, 1974 — Executive Committee of Commission, meeting in Brussels, discusses earlier report of task force.

September 29 — Gardner and Okita consult with thirteen experts in Washington, D.C.

September 30 - October 3 — Gardner and Okita continue consultations in Washington, D.C., during Annual Meetings of World Bank and International Monetary Fund.

Early November — Gardner and Udink carry on extensive consultations in Europe.

Late November — First draft of report completed and circulated within Executive Committee of Commission.

December 9 — Discussion of the report at the Executive Committee meeting in Washington, D.C.

Mid-December — First draft circulated to all Commission members.


February 28 — Final draft of report completed for publication.
SUMMARY OF THE SECOND REPORT OF THE TASK FORCE ON RELATIONS WITH DEVELOPING COUNTRIES:

OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980

An extra $6 billion a year in Official Development Assistance (ODA) will be needed in the period 1976-80 to assure a 2% growth rate in per capita income in the approximately 30 low-income developing countries containing one billion of the world's people. Although there will be pressures to "write off" these countries if economic and political crises deepen in the Trilateral region, such a policy would be politically unrealistic as well as morally unacceptable. Moreover, a joint Trilateral-OPEC initiative that brings forth more capital for development would serve some very immediate Trilateral country interests. In a time of stagnant growth and rising unemployment, it is obviously advantageous to move funds from OPEC countries which cannot spend them on Trilateral country exports to developing countries who will.

Knowledgeable officials estimate that ODA from OPEC countries will reach approximately $3 billion a year in the 1976-80 period. In these same years, the Trilateral countries should, at a minimum, increase the size of their own ODA (about $9.4 billion in 1973 dollars) to keep pace with inflation. This will still leave $3 billion a year of ODA to be found.

To meet this need, it is proposed that a “Third Window” be opened in the World Bank to borrow $3 billion a year of OPEC country funds at 8% and lend it to low-income countries at 3%, in loans with 20-year maturities and 4-year grace periods, in each of the years 1976-80. This would require an annual interest subsidy of $900 million, of which $100 million could be raised from World Bank earnings, $500 million from Trilateral countries, and $300 million from OPEC countries.

The “Third Window” fund should be managed by a tripartite governing body, with representation and voting power equally shared between Trilateral countries, OPEC countries, and other developing countries. Moreover, to encourage the participation of the OPEC countries in the regular activities of the Bank and Fund, OPEC quotas and voting rights should be raised from the present 5% to between 15 and 20%.
Table of Contents

I. Introduction .................................................. 9

II. The Financing Problem ..................................... 11

III. The Restructuring Problem ............................... 17

IV. Other Questions ............................................. 20

Annexes ......................................................... 22

Members of the Trilateral Commission ....................... 27
OPEC, the Trilateral World, and the Developing Countries:
New Arrangements for Cooperation, 1976-1980

I. Introduction

In its report entitled "A Turning Point in North-South Economic Relations" the Trilateral Commission Task Force on Relations with Developing Countries proposed a special effort of cooperation between the Trilateral world and the OPEC countries to meet the emergency needs in 1974-75 of some thirty low-income countries of the "Fourth World" who have been particularly hard hit by skyrocketing costs of oil, food, fertilizer and industrial goods. It also outlined some basic concepts that might provide a framework for cooperation between developed and developing countries in the period beyond the short-term emergency. The task force promised to present a specific program to strengthen the multilateral development system in a second report to be issued in the spring of 1975.

To meet the emergency needs of the "Fourth World" in 1974-75, our first report envisaged an emergency program of $3 billion in extra concessional aid, one-half from the Trilateral world, one-half from the OPEC countries. In the months since our report was issued, the proposed Trilateral-OPEC negotiation to produce this shared effort of collaboration has not occurred. Nevertheless, the United Nations has made some progress with its emergency program, launched by the General Assembly at the special session of March-April 1974, to help the most severely affected developing countries. OPEC and Trilateral countries have separately promised substantial increases in their bilateral financial aid programs in response to the UN's appeal, and the United States has announced a significant increase in its food aid. Moreover, medium-term loans from the new "oil facility" of the International Monetary Fund are being made available to some of the most severely affected countries to tide them over their immediate difficulties. One way or another, it
appears that the "Fourth World" will manage to get through the 1974-75 period without an economic disaster.

Attention must now be directed to the problem of North-South cooperation in development beyond the emergency period. This problem is much more formidable than that of devising short-term solutions. In his address to the annual meeting of the Board of Governors of the World Bank group on September 30, 1974, Robert S. McNamara estimated that unless ways are found to increase the present level of Official Development Assistance (ODA)\(^1\) in terms of real purchasing power rather than just in money terms the billion people in countries with average incomes under $200 per capita are likely to face a decline in their standard of living amounting to 0.4% per capita per year between now and 1980. To make possible a 2.1% annual growth in their per capita GNP — a modest rate of growth by any standard — would require an increase in ODA, in terms of 1973 dollars, from $9.4 billion in 1973 to $13.5 billion in 1980, an increase of about $4 billion. Taking account of anticipated inflation and the further deterioration in the world economy since McNamara's address which has aggravated even more the problems of the low-income countries, an increase in ODA by $6 billion a year for the years 1976-80 at then-existing prices is the very minimum that seems to be required. (McNamara's detailed estimates on ODA requirements are set out in Annex 1.)

The case for supplying that additional $6 billion per year of ODA for the one billion people in the low-income countries is based on the considerations set forth in the first report of our task force. As we noted there, the Trilateral countries need the developing countries as sources of raw materials, as export markets and, most important of all, as constructive partners in the building of a satisfactory world economic and political order. The world's interrelated crises of population growth, environmental deterioration, mass poverty, mounting unemployment, growing social and political instability, proliferating nuclear and conventional weapons, and escalating terrorism and international conflict cannot be solved without attention to the needs and priorities of the developing as well as the developed world.

There will be increasing pressures to "write off" some of the low-income developing countries in the Indian subcontinent and Africa if the economic and political crises deepen in the Trilateral world. But it is doubtful if the people of the Trilateral countries would find such a

\(^1\)Official Development Assistance is defined as government aid with at least a 25% grant element.
policy to be either morally acceptable or politically realistic if the moment ever came to carry it out. In terms of the long-term interest of the Trilateral world, it would prove ultimately self-destructive.

To these considerations there can now be added another very practical argument. In a time of stagnant growth and rising unemployment, it is clearly in the interest of the Trilateral countries to move funds from OPEC countries which cannot spend them on Trilateral country exports to other developing countries who will. To the extent that aid contributions from the Trilateral world bring forth additional aid contributions from the OPEC countries, they have a multiplier effect on exports, employment and income, also helping the balance of payments. Indeed, we need to think in terms of a second type of “Trilateralism” — by which OPEC countries transfer a portion of their liquid balances in the Trilateral world into long-term loans to the LDCs, who in turn spend the proceeds on Trilateral country exports.

Assuming this case for increasing ODA is sound, two central questions remain to be addressed: First, where is the extra $6 billion a year to come from? Second, what changes in the structure of multilateral development institutions seem to be required?

II. THE FINANCING PROBLEM

A solution to the question of long-term financing is clearly going to require a major act of cooperation between the Trilateral countries and the OPEC countries. To be sure, the OPEC countries have already taken a number of initiatives to increase the flow of concessional aid. Kuwait and Venezuela have substantially increased their existing aid programs. Iran and Iraq are selling a certain amount of oil to India on concessional terms. Saudi Arabia has set up its own Development Fund and has made large commitments of aid to Egypt and other Arab countries. Libya, Abu Dhabi, and the Emirates are increasing their bilateral efforts. In addition, some major multilateral ventures among OPEC nations have been announced — a $200 million Special Arab Fund for Africa, an Arab Bank for Industrial and Agricultural Development in Africa with an initial capital of $200 million, an Islamic Bank with an authorized capital of $2 billion, and an OPEC Fund. The capital of the already-operating Arab Fund for Economic and Social Development is expected to be increased substantially. Taken all together, commitments
of concessional aid by OPEC countries in 1974 reached $7.6 billion, although it should be noted that two-thirds of this sum was concentrated on three Arab countries — Egypt, Syria, and Jordan. While it is difficult to make precise estimates of what all this is likely to mean in actual aid disbursements, conversations with knowledgeable officials suggest that total OPEC disbursements of ODA are likely to reach some $3 billion a year in the 1976-80 period. This will still leave a shortfall of $3 billion from the $6 billion of additional ODA each year that is estimated to be required to achieve minimum development goals.

It is highly unlikely that this additional $3 billion a year can be raised between Trilateral and OPEC countries by any of the traditional aid-giving methods. ODA is already in deep trouble in the Trilateral world. During the ten-year period 1963-73, while the real income of citizens of the countries who are members of the OECD’s Development Assistance Committee was growing by 60%, the real value of ODA supplied by these countries was actually declining by 7%. During the past year, a number of Trilateral countries have further reduced their ODA in real terms. If the Trilateral countries are to have any credibility in aid discussions with the OPEC countries and the rest of the developing world, they should agree at a minimum to maintain the real value of their ODA for the remainder of this decade, applying an automatic upward adjustment of bilateral and multilateral financial flows to keep pace with inflation. Just to do this will require a formidable effort of political leadership. It is hard to envisage the Trilateral countries increasing their existing programs to cover any substantial portion of the $3 billion a year ODA shortfall that will still remain.

The prospect of securing the $3 billion shortfall in ODA from the OPEC countries is not much better. This shortfall is already estimated on the basis of a $3 billion annual ODA effort of the OPEC countries through their own bilateral and regional programs. A $3 billion annual aid program would represent close to 2% of the combined GNP of the OPEC countries (a good deal more for individual OPEC donors like Iran and the Persian Gulf states) compared to average existing aid levels of .30% of GNP for Trilateral countries. To put it differently, the combined GNP of the OPEC countries (exclusive of Nigeria and Indonesia, whose income of around $100 per capita even with increased oil revenues will exempt them from any substantial aid-giving) is forecast by the World Bank at only 6% of the combined GNP of the Trilateral countries as late as 1980. If the OPEC countries give $3 billion a year of ODA in the years 1976-80 and the Trilateral countries maintain the real value of their existing aid levels, the ODA of OPEC countries will
be about 20% of Trilateral levels during this period. If they are challenged to increase their ODA substantially to take up all or even half of the $3 billion shortfall, they are likely to reply that they are already doing much more than their share in terms of conventional burden-sharing formulae. Indeed, they will probably make the further argument that additional ODA burdens for them are particularly inappropriate, since they involve financial transfers from a resource base of oil that is being depleted, whereas the Trilateral countries can finance ODA from an industrial base whose output renews itself and even grows with each passing year.

The conclusion seems inescapable that an agreed sharing of the $3 billion in extra ODA per year is unlikely to be found except through a wholly new approach. Such an approach would start with the recognition that the relevant characteristics of the OPEC countries differ so fundamentally from those of the traditional aid donors that an attempt to share ODA on the basis of percentages of GNP will neither produce a sense of rough justice as between the Trilateral and OPEC groups or the necessary volume of financial flows. The Trilateral countries represent an annual GNP of nearly $3 trillion, but as a group cannot generate large amounts of foreign exchange. The OPEC countries represent $150-200 billion of GNP but are running current account surpluses of over $50 billion a year (although some estimates suggest these surpluses will decline substantially and even disappear by the end of the decade). A new approach would proceed on the basis that the OPEC countries, being highly liquid but not yet rich, should provide a disproportionately large amount of the extra financial flows with a disproportionately small concessional aid element, while the Trilateral countries, being still very rich but not very liquid, should supply a disproportionately small amount of the extra financial flows with a disproportionately large concessional aid element.

One of the most politically attractive ways of combining OPEC and Trilateral resources along these lines would be through an interest subsidy, subscribed by the Trilateral and OPEC countries, to transform large amounts of lending from OPEC countries on commercial terms into ODA on terms suitable to low-income countries. To be specific: a new "Third Window" could be opened in the World Bank alongside its regular lending operations and those of the International Development Association. The managers of the "Third Window" would borrow the $3 billion estimated to be required each year at an interest rate of 8% and lend the money to low-income countries at 3% (very easy terms at present rates of inflation). The $3 billion would be raised by issuing
bonds directly to OPEC governments or in the capital markets of Trilateral countries where substantial OPEC funds are available.

According to studies by the World Bank staff, it requires a subsidy fund of 23.45% of the face value of a loan to subsidize a 5% interest differential for project lending (slow disbursement) and a subsidy fund of 34.61% of the face value of a loan for program lending (more rapid disbursement), assuming loans to low-income countries with 20-year maturities and 4-year grace periods. The required subsidy fund increases, of course, if easier repayment schedules are permitted. But lending on the basis described above could meet the needs of many of the low-income countries in view of the fact that the present rate of inflation reduces the burden of repayment and of the fact that the IDA would continue its own more concessional lending program of 50-year loans with 10-year grace periods and only a ¾ of 1% service charge. It should also be noted that very poor countries like Bangladesh could get additional IDA money if the relatively better-off IDA recipients were given access to “Third Window” loans instead. “Third Window” money could finance both general development programs and specific projects, with special emphasis on projects in agriculture and energy, where there is now a very considerable scope for productive investment. Given a blend of project and program lending, the subsidy needed would be about 30% of the annual lending or about $900 million a year. (For calculations of the subsidy required under different assumptions of interest-rate differentials, maturities and grace periods, see Annex 2.)

Some $100 million of this amount could be provided each year from the profits of the World Bank’s regular loan operations. Of the remaining $800 million a year, $500 million might be provided by the Trilateral countries, and $300 million by the OPEC countries. The precise division of the burden would, of course, be a matter for negotiation.

The most obvious political advantage of this proposal is that comparatively small amounts of additional resources would be required from any one country. For example, based on the burden-sharing formula used in the fourth IDA replenishment, the yearly share of the subsidy fund for the nine members of the European Community would be about $190 million; for Japan, about $55 million; for the United States, about $170 million; for Canada, about $30 million; with other IDA contributors making up the rest (about $55 million). An American President could point out to Congress that the relatively small sum of $170 million, supplemented by contributions from other Trilateral countries, was moving $3 billion of extra OPEC funds to the low-income countries.
Further in support of the proposal it could be argued that moving $3 billion from OPEC countries unable to spend it to low-income countries who were able to do so would stimulate employment and income in the Trilateral world. Based on the fact that from one-quarter to one-third of procurement from World Bank group lending has been in the U.S., the $70 million U.S. contribution could mean $750 million to $1 billion in additional U.S. exports. Other Trilateral countries could enjoy a similar "multiplier-effect" on their exports from their contributions to the interest subsidy.

In return for these advantages, of course, it should be clearly understood that under the "Third Window" plan the Trilateral countries, who account at present for about 75% of the World Bank’s capital subscriptions, would be carrying the main burden as guarantors for the repayment of moneys borrowed from OPEC countries and re-lent to low-income developing countries. Why, it may be asked, should the Trilateral countries assume such an obligation? Should not OPEC countries be asked to assume the risk of lending themselves? The answer to this question is, first, that the OPEC countries are not likely to assume such a risk for an additional $3 billion of lending beyond their estimated $3 billion in concessional aid and, second, that the "Third Window" proposal involves a "package deal" that serves the interests of all the countries involved.

The industrialized countries, the non-oil-producing developing countries, and the OPEC countries have a shared interest in the latter's participation in multilateral development institutions. The first two groups benefit because the multilateral institutions secure the increased resources they need to function effectively and to avoid being gradually eclipsed by OPEC-country institutions with aid programs that are not only geographically limited but often politically linked. The OPEC countries benefit by being able to invest in the obligations of multilateral institutions backed by the guarantees of the rest of the world's economic powers; they also get a "buffer" between themselves and low-income developing countries who might prove difficult when it comes to repaying loans or using aid effectively. All sides also get a chance to develop a working partnership in the financial field that may eventually lead to more satisfactory negotiations in other areas, including energy questions and oil prices.

Another question that may arise in connection with the "Third Window" proposal is how such a comparatively modest subsidy fund can finance such large amounts of capital flows. The answer is that if the subsidy fund is made available each year in the specified amounts
only a small portion will actually be needed to cover the interest payments and the remainder of the subsidy fund can be invested at commercial rates (8% is assumed in the estimates given above). Moreover, and this point should be faced frankly, the estimates assume, in accordance with normal World Bank group lending experience, that there is some lag each year between the new money being made available by the OPEC countries and the actual disbursements from the “Third Window.” Thus there is an 8% interest cost only on that portion of the $3 billion annual borrowing that is actually disbursed to the low-income countries. In short, the normal disbursement schedule of multilateral lending agencies means that something less than the full $3 billion a year will be coming to the low-income countries in the first years of the plan.

To take care of this problem, some increased medium-term lending will be needed from the IMF “oil facility” in the early years of the plan. To facilitate IMF lending to the low-income countries at rates well below the 7% IMF rate, another much smaller “subsidy fund” may have to be contemplated. The Fund’s Interim Committee has recommended the establishment of a “special account” to reduce the burden of interest payments on “oil facility” loans to the most severely affected developing countries, but it is not clear where the funds for the “special account” will come from. One possibility to be considered is the use of profits from the sale of small amounts of the Fund’s gold holdings on the private market. The amounts needed for the “special account” would be a good deal less than the $900 million annual subsidy fund required for the “Third Window” because the loans would be shorter-term and the volume of lending less. The gold sales required for this purpose would not unduly depress the free market gold price. Fears on this score have caused some Fund members to oppose sales of Fund gold in the past. While gold sales would probably be opposed as a means of raising the $900 million interest subsidy for the “Third Window,” agreement might be possible on selling the more modest amounts needed to subsidize “oil facility” lending to low-income countries in a transitional period while the “Third Window” was getting underway.

Influenced in part by an earlier version of this paper, the new IMF/IBRD Development Committee, consisting of Finance Ministers from 20 countries, has called for a study of the “Third Window” plan. It is hoped that sufficient support can be obtained in the months ahead from Trilateral, OPEC and other countries so that the “Third Window” with its urgently needed development funds will be ready to begin operations at the outset of the 1976-80 period.
III. The Restructuring Problem

The problem of institutional restructuring is directly related to the financing problem. The OPEC countries are unlikely to participate in the kind of multilateral venture described above unless they come in as full partners with the Trilateral countries, with voting and other arrangements reflecting the financial contributions they are being asked to make. In the Fund and Bank as they are presently organized, the OPEC countries have quotas and voting rights equal to 5% of the total. The Arab members of OPEC have quotas and voting rights equal to 2% of the total — roughly the share of Belgium. The OPEC countries are not likely to regard these arrangements as a satisfactory basis for their expanded participation in multilateral financial arrangements under Fund or Bank auspices. (The existing distribution of quotas and voting rights in the Fund and of subscriptions and voting rights in the Bank are shown in Annex 3.)

One approach to this structural problem would be to increase the quotas and voting rights of the OPEC countries in the Fund and Bank to reflect their new economic power. In the quinquennial review of Fund quotas that is now underway, a decision has been reached to increase the total OPEC percentage to about 10% of the total. This would still be less than half of the voting power presently enjoyed by the United States alone or by the countries of the European Community as a group.

A larger increase in the OPEC share seems to face opposition for several reasons. First, the traditional indicators relied on in these quota reviews (GNP and trade statistics with foreign exchange reserves only one of several factors) do not justify a larger increase. Second, and clearly more important, there is resistance on the part of most Fund members (developing as well as developed) to accept reductions in their percentages to make possible more than modest OPEC increases. The United States, in particular, which now has 21% of the votes in the Fund, is reluctant to lose its present veto power on amendments to the Fund Articles, which require the approval of three-fifths of the members with 80% of the voting power. Third, there appears to be some fear that a more substantial increase in the OPEC share — to 15% or more, for example — would give the OPEC countries a veto over the issuance or cancellation of SDRs (which require an 85% vote) and even over amendments, given the financial leverage of OPEC countries over other Fund members.
The general interest of the membership of the Fund and Bank, including that of the Trilateral countries, would seem to indicate a more forthcoming attitude toward increases in the quotas and voting rights of OPEC countries. Traditional indicators used in previous quota reviews are not sufficient guides in the radically new situation in which the world now finds itself, where the OPEC countries may soon dispose of half the world’s monetary reserves and where they are being asked to make major financial contributions to IMF recycling plans and to the purchase of World Bank bonds. In the light of these considerations, an increase in the OPEC share to between 15 and 20% in the Fund and Bank would seem more appropriate than the 10% now envisaged. The larger quota increases would mean more OPEC funds available for the Fund and Bank’s regular operations. The increased voting power of OPEC would pose no real threat of an “OPEC veto” since the OPEC countries have not voted as a block on financial and development matters (except, of course, to the extent that they vote in solidarity as members of the group of developing countries, which already have sufficient votes to block SDR allocations or amendments).

In the World Bank, it should be noted, the voting majority required for the approval of loans is 50% (actual votes are very rare). As major contributors, OPEC countries are likely to be prudent in their judgment of loan proposals. In any event, a 15-20% OPEC voting share would not fundamentally alter the balance of power in the Bank’s Executive Board; the Trilateral countries would still have over half the votes on a weighted-voting basis.

In reaching its decision to increase the OPEC share to 10% in Fund quotas and voting rights, the Fund’s Interim Committee has wisely agreed that the next review of quotas and voting rights should take place within three rather than the usual five years. For the reasons suggested above, it would be useful if the Trilateral countries could indicate now their sympathetic interest in seeing the OPEC countries’ share raised to 15-20% at that time, assuming, of course, that the OPEC countries are willing to assume increased responsibilities in the Fund, e.g., by continuing their contributions to recycling efforts through the Fund’s “oil facility” and permitting their currencies to be used for regular Fund lending (several OPEC members do not yet do so).

The World Bank has traditionally adjusted shares of subscriptions and voting rights in accordance with decisions reached in the quota reviews of the Fund. In the special circumstances of the present time, however, there are good reasons for increasing the OPEC countries’ share in the Bank beyond the 10% agreed to in the Fund to the 15-20%
figure suggested earlier, without waiting for the next review of Fund quotas in three years. Given the differences in the character of the two institutions, there is no reason why the distribution of contributions and voting rights must be identical. As a practical matter, it would be advantageous to have a larger OPEC country share in World Bank subscriptions as soon as possible. This would add to the Bank’s paid-in capital and increase the share of OPEC countries in the guaranteeing of Bank obligations.

Yet even an immediate 15-20% share for OPEC countries in the Bank’s regular operations would not solve the problem of providing them with an adequate voice in the management of the $3 billion-a-year “Third Window” program for the low-income countries that has been proposed above. Under the Bank’s Articles of Agreement, all Bank loans must remain the responsibility of the Bank’s Executive Board, where the regular distribution of voting shares applies. But there is no reason why special arrangements could not be devised for the management of the subsidy fund, where the managers of the fund could make decisions on the types of loans to be subsidized or even on subsidies to particular loans on a case-by-case basis. In effect, there would be a bicameral arrangement, with the Bank’s Executive Board approving loan proposals and the “Third Window” management deciding on the disposition of the subsidy fund.

These special arrangements for the “Third Window” could be modeled after those suggested by the Shah of Iran at the beginning of 1974. The Shah proposed a special fund associated with the World Bank which would have a governing body composed equally of representatives from developed countries, from OPEC countries, and from other developing countries. This tripartite approach would seem to be a reasonable one, considering the large OPEC contribution to the special concessional aid operation here proposed (all of the $3 billion each year plus $300 million of the $900 million annual subsidy), and considering also the legitimate interest of other developing countries in the management of the “Third Window” program. The day-to-day administration of the subsidy fund and of lending operations facilitated by it would be carried out by the officers and staff of the World Bank group, which represents a concentration of experience and technical skill that would not be easy to duplicate.

More than changes in voting arrangements and formal managerial structures may be required, however, to provide the OPEC countries, and particularly the Arab members of OPEC, with confidence in the World Bank group and its new “Third Window.” To begin with, there
should be greater attention to Arab sensibilities in the scheduling of meetings (the 1974 Annual Meetings of the Bank and Fund were scheduled on Ramadan). Special courses, some of them in Arabic, should be organized by the Bank's Economic Development Institute in a major effort to train bright young leaders from OPEC countries for service with the World Bank group or for comparable responsibilities in their own governments. Gradually, the top management of the Bank and Fund ought to include a larger number of OPEC country nationals, including nationals from Arab countries.

Such a restructuring of the world's major international financial institutions will not be easy — no major adjustment of established organizations ever is. But it will provide a major test of the willingness of the Trilateral world to come to terms with new economic realities and to share power with those whose cooperation is now essential to preserve a working world economy. For the reasons suggested earlier, the Trilateral world, the OPEC countries, and the developing countries seeking development aid all have an interest in a successful solution to the restructuring problem.

IV. Other Questions

Even with a major new effort of multilateral cooperation along the lines proposed above, the bulk of industrialized and OPEC country aid efforts will continue to be through bilateral and regional channels. It would be useful to have a forum in which the industrialized and OPEC countries could exchange information and discuss aid policy questions, including aid levels and terms, types of projects to be supported, and distribution among recipient countries. Possible forums to be considered for this purpose are the new IMF/IBRD Development Committee, which includes recipient developing countries; the Development Assistance Committee (DAC) of the OECD, which includes only industrialized countries, but which could be broadened to include OPEC donors; or some new forum to be specially created. Pending the decision on a forum, OPEC countries could be invited to participate on an ad hoc basis in DAC meetings and in OECD and World Bank consortia and consultative groups. Moreover, if the mandate of OPEC could be broadened to include aid questions, useful cooperation could be developed between the OECD and World Bank staffs, on the one hand, and the OPEC secretariat on the other.
There is a real danger that in concentrating on the approximately 30 low-income countries of the “Fourth World” there will be a tendency to neglect the very real problems of the new “middle class” — countries like Mexico, Brazil, Turkey, Malaysia and the Republic of Korea. These nations have made rapid progress in the past, but they are likely to face serious financial problems in the future due to the higher cost of food and fuel, particularly if slow growth in the Trilateral world dims prospects for their exports. Substantial amounts of financing between commercial lending and ODA may be needed if the recent gains of these countries are not to be jeopardized. This could take the form of conventional World Bank lending and also loans from the IMF “oil facility,” which may need to be continued beyond 1975 for this purpose as well as for aid to Trilateral countries.

Before concluding, special emphasis should be placed on the desirability of including the Soviet Union in multilateral development efforts, not only in the interest of detente and global solidarity, but because the Soviet Union has substantial economic capabilities and has benefited from the increase in raw material prices. Full Soviet membership in the Fund and Bank system seems unlikely in the near future, but the U.S.S.R. should certainly be invited to participate in the interest subsidy for the $3 billion fund in the World Bank’s “Third Window,” or in some parallel UN effort whose activities could be coordinated with those of the World Bank group. During the cold war era, the Soviet Union remained outside of multilateral development efforts. In a new era concerned with global survival, every effort should be made to include it.
# ANNEX 1

Flow of Official Development Assistance Measured as a Percent of Gross National Product<sup>a</sup>

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**GRAND TOTALS**

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<sup>a</sup>Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1973 and earlier years are actual data. The projections for 1974 and 1975 are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) through 1975.

<sup>b</sup>New Zealand became a member of the DAC only in 1973. ODA figures for New Zealand are not available for 1960-71.

<sup>c</sup>In 1949, at the beginning of the Marshall Plan, U.S. Official Development Assistance amounted to 2.79% of GNP.

<sup>d</sup>Case I leading to a — 0.4% change in GNP per capita per annum in countries with incomes of under $200 per capita would require ODA of $16.7 billion (.20% of DAC GNP) in 1980; Case II with 2.1% growth in GNP per capita would require $24.4 billion (.30% of DAC GNP) in that year.

**Source:** Robert S. McNamara, Address to the Board of Governors of the World Bank Group, September 30, 1974.
## ANNEX 2
Subsidy Fund Required (% of face value of loan)

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<th>Loan Type</th>
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<td>22.36%</td>
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*Source: World Bank staff calculations*
## ANNEX 3
Existing Distribution of Voting Power in the IMF and IBRD

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*May differ from the sum of the individual percentages shown because of rounding.
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